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SUBJECT: EUR/RUS DIRECTOR WARLICK DISCUSSES ENERGY SECURITY, G-8, AND FOREIGN POLICY WITH EU OFFICIALS

Classified By: POLCOUNS LEE LITZENBERGER FOR REASONS 1.4 (B,D)

1. (C) Summary: The European Commission has three main priorities with Russia on energy: 1) Russian ratification of the Energy Charter Treaty; 2) third-party access to Russian pipelines and; 3) a reduction in state interference in the oil and gas sector. On Belarus, Russian officials have told the EU that they are "pressing ahead" with a Russia/Belarus Union State and Russian presidential advisor Sergei Yastrzhembsky has said that Russia will raise gas prices for Belarus starting in early 2007, a move the EU thinks will test the Putin/Lukashenko relationship in the year to come. Expectations are low for energy security at the G-8 Summit, but Russian Energy Minister Khristenko had recently signaled to Commissioner Borosso that Putin intends to "give something" in this area in advance of the Summit.. Putin is reportedly pushing the EU on two energy initiatives: "market reciprocity" and nuclear energy. The EU believes Putin wants Russia to be the nuclear fuel provider to the rest of the world and will push this theme at the G-8. End Summary.

#### Energy Security

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2. (C) In meetings with EUR/RUS Director Mary Warlick on March 23, EU Council and Commission officials discussed the challenges of energy cooperation with Russia. EU Council Deputy Director-General for Policy Planning and Early Warning Helga Schmid said that in all her years working in the offices of successive German Foreign Ministers, the issue of energy security vis-a-vis Russia was never discussed. That has completely changed now, she said, and everybody realizes that the EU needs more unification on energy policy. However, the North European Pipeline is not the model for future projects, she said. The challenge for the EU is to move internally on energy first while persuading Moscow of the need for Gazprom reform and infrastructure investment. The issue of energy efficiency also needs to "sink in" with the Russians and there is a chance this topic will be discussed at the May EU/Russia Summit, Schmid said.

3. (C) While the EU focus is on security of energy supply, Schmid said, the Kremlin raised the issue of security of demand in meetings with European Commission President Jose Manuel Barroso during his March 16 trip to Moscow. With the recently concluded deals on natural gas deliveries and oil cooperation reached during Putin's visit to China, Carl Hallergard, EU Council Russia policy advisor, said he expects to hear the message from the Russians at the EU/Russia Summit that, "look -- we can sell to China too!" Hallergard added that Gazprom wants EU Member States to commit "to buy a trillion cubic meters of gas for the next 150 years -- and then maybe Russia will build a pipeline." This is not "how it works," Hallergard said, and negotiations on energy cooperation with Russia should not proceed with this mindset.

4. (C) Hugues Mingarelli, European Commission Director for Eastern Europe, Central Asia, and the Caucasus, said that, from the Commission's perspective, it has three main priorities with Russia on energy: 1) ratify the Energy Charter Treaty (even though Russia has consistently refused to do so); 2) ensure third-party access to Gazprom's pipelines (even though the Kremlin does not want to hear this message) and; 3) reduce state interference in the oil and gas sector. Mingarelli commented, however, that he expects to see Russia use energy more and more as a foreign policy instrument. He noted that EU Commissioner Borosso, in recent meetings with President Putin and others in Moscow, had pressed for a more predictable investment environment for investors in the oil and gas sector, but saw little hope for near-term progress. Mingarelli also expressed frustration with the Russian lack of willingness to engage in serious discussions on an EU assistance initiative to de-commission Russia's dangerously obsolete first-generation nuclear reactors and replace them with newer, safer reactors. He indicated that Russia only appeared interested in finding way to extend the life of these obsolete reactors.

5. (C) Schmid and Hallergard also indicated that there is an ongoing EU discussion on creating a regional electricity market with Europe for the countries of Eastern Europe,

especially Moldova and Ukraine. Such an initiative would more firmly anchor these countries in Europe, making them less vulnerable to disruptions by Russia. They added that one of the biggest problems for Ukraine is energy efficiency; a proposed EU/Ukraine energy treaty, that would a framework for cooperation, is currently under active consideration and will be on the agenda at the forthcoming EU/Ukraine Summit. Schmid said that she raises EU concerns about the Russia-Ukraine gas deal every time she talks with Ukrainian officials and believed that she had achieved some success in doing so, at least certain factions of the Ukrainian government.

#### Russia's 'Neighborhood' Policy

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16. (C) Jukka Leskela, EU Council Head of Unit for East Europe and Central Asia, said he was "worried about Russia's neighborhood policy -- particularly regarding Transnistria." On Transnistria, Hallergard suggested that it was best not to react to Russian propaganda after the recent customs declaration implementation by the Ukrainian government, commenting that it would "blow over" eventually. Hallergard, Schmid, and Leskela all said that it was clear, given the reaction in Moscow over the implementation, that the "wallets" of at least some in the Kremlin had been hit. Because Russian business interests are involved on the Transnistria issue, it made working towards a settlement that much more difficult for the EU, according to Schmid.

17. (C) On Belarus, March 23 had EU Heads of Government meeting to debate possible restrictive measures against Belarus for its fraudulent elections. Schmid, Mingarelli, and Leskela privately told EUR/RUS Director that they favored including President Lukashenko on a visa ban list and, in the words of Leskela, "our credibility is on the line with this given what we have said." (Comment: On March 24, the EU Council subsequently issued a statement announcing restrictive measures against President Lukashenko. End Comment.) According to Schmid, German Intelligence Service contacts had advised that Lukashenko is very much hated even within the Belarusian elite on account of his erratic and mercurial behavior.

18. (C) Schmid also noted that the Russians had told her that they are "pressing ahead" with a Union State of Russia/Belarus. In addition, Russian presidential advisor Sergei Yastrzhembsky had advised her that Russia will raise gas prices for Belarus starting in early 2007. As Russia makes a push to get more firm control of the Belarusian gas pipelines, as it inevitably will, combined with higher gas prices and movement on Union -- all of these factors would combine to test the Putin/Lukashenko relationship in the year to come, Hallergard said.

19. (C) On Georgia, Hallergard commented that Russia "wants to be nasty right now." He was pessimistic on any short or medium-term progress on South Ossetia as the Georgians, he said, had lost any of the good-will they had in Moscow following their harsh reaction to the gas and electricity disruptions in January. On South Ossetia, Hallergard said, "there is the full spectrum of Russian irresponsibility." On Ukraine, Leskela said the EU will be looking at three primary issues after the March 26 elections: 1) status of reforms; 2) whether Ukraine will be able to keep its commitments and continue to play a constructive role on Transnistria; 3) continued Ukrainian alignment with EU foreign policy statements.

#### Anticipating the G-8

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10. (C) Laurent Muschel, Head of Unit for Inter-Institutional Relations, Enlargement, and International Relations in the Directorate General (DG) for Energy and Transport of the European Commission, told Warlick that his expectations are low for energy security at the G-8 Summit. However, Russian Energy Minister Khristenko had told EU Energy Commissioner Borosso in recent meetings in Moscow that he was waiting for a decision from Putin, who he believed was prepared to "give something" on energy at the Summit. Muschel outlined two ideas that Putin is pushing with the EU on energy: 1) "Market reciprocity" (including claims that Gazprom is being prevented from acquiring certain distribution assets in the EU); and, 2) nuclear energy (Russia wants to be the nuclear fuel provider to the rest of the world and would like this to be a big initiative at the G-8).

11. (C) Muschel indicated that he would welcome Russian nuclear initiatives at the G-8, but expressed frustration that the energy security statement being negotiated for leaders at the Summit was thus far very weak, with no real commitments on the important issues of transit, the Energy Charter Treaty or third party access. Muschel also expressed concern that Russia might try to "buy" the West,

with some industry concessions at the G-8 (e.g. on the Shtokman LNG transaction) without really getting to the heart of the matter on industry reform. He expressed the view that it was a reasonable goal to push hard for the end of the Gazprom export monopoly; while the push not be successful, he believed it could lead to the reform necessary for Russian energy industry to be a better supplier for Europe.

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